Attachment B

Five-Year Affordable Housing Funding Projection from the Adopted Plan

Source	FY 17/18 Committed Projects	FY17/18 Available for Development	FY 18/19 Estimated Revenue	FY 19/20 Estimated Revenue	FY 20/21 Estimated Revenue	FY 21/22 Estimated Revenue
Low and Moderate Income Housing Fund	$27,574,000	$51,960,000	$41,500,000	$5,500,000	$5,500,000	$5,500,000
Affordable Housing Impact Fees	$0	$1,197,000	$11,995,000	$46,000	$0	$0
Inclusionary Housing Policy In-Lieu Fees	$0	$11,400,000	$10,322,000	$13,800,000	$0	$0
Inclusionary Housing Ordinance In-Lieu Fees	$0	$0	$3,251,000	$25,000,000	$55,991,000	$25,000,000
Housing Authority Litigation Award	$0	$19,000,000	$0	$0	$0	$0
HOME	$1,500,000	$4,000,000	$3,100,000	$1,000,000	$1,000,000	$1,000,000
SB2 State Housing Trust Fund	$0	$0	$0	$2,000,000	$3,000,000	$3,000,000
TOTALS	**$29,074,000**	**$87,557,000**	**$71,168,000**	**$47,346,000**	**$65,491,000**	**$34,500,000**
					Total	**$335,136,000**

The following describes projected revenue sources in more detail:

- **Low and Moderate-Income Housing Affordable Fund (LMIHAF) –** The Housing Department has engaged TCAM to develop a revenue projection model based on its review of over 90 of the City's most significant affordable housing assets and created a projected revenue model. This model estimates that the City can anticipate up to$5.5 million annually in LMIHAF repayments that can be dedicated to new affordable housing developments over the next five years. Affordable housing developers typically will seek to reinvest in their existing projects after expiration of their tax credit compliance period because the project is eligible to receive new tax credit financing. It is anticipated that some developments will decide to repay their City loans each year when their tax credit compliance period ends.

- **Inclusionary Housing Policy (Policy)** – Formerly under the Redevelopment Agency, the Policy required that twenty percent (20%) of all for-sale developments of 10 or more units located in Redevelopment Project Areas be price-restricted and sold to moderate-income purchasers and twenty percent (20%) of all rental developments of 10 or more units be restricted to very low income (50% of the Area Median Income (AMI)) and low (60% AMI) or moderate (120% AMI) income households. The Policy, as last amended in 2007, included alternative compliance options including payment of an in-lieu fee (at $17 per square foot). To date, there are three projects that are still under construction and are expected to pay in-lieu fees to fulfill their obligation. Note that the Policy was not extinguished by the dissolution of the Redevelopment Agency in 2012 but was replaced when the Inclusionary Housing Ordinance (see below) became operative.

- **Inclusionary Housing Ordinance (IHO)** – On January 12, 2010, the San José City Council adopted the Inclusionary Housing Ordinance, Chapter 5.08 of the San José Municipal Code. The Ordinance applies to for-sale and rental market rate developments of 20 or more units. Although the Ordinance was operative on January 1, 2013, its implementation was initially prevented by a stay imposed by the Santa Clara County Superior Court, resulting from a challenge submitted by the California Building Industry Association in California Building Industry Association v. City of San José. Upon conclusion of this case, the IHO being operative on June 30, 2016 and City Council adopted a resolution providing a grace period suspending the Ordinance requirements for for-sale projects that had acquired all their Planning Permits on or before June 30, 2016. Also the provisions of the IHO did not apply to rental developments due to the Palmer v. City of Los Angeles case. On September 29, 2017, the Governor signed Assembly Bill 1505, amending the State Planning Act to supersede the court decision and authorized rental inclusionary restrictions thus allowing the IHO to apply to rental developments effective January 1, 2018. In addition, the City Council adopted resolution 78473 amending the Affordable Housing Impact Fee (AHIF) Resolution to provide a framework for a transition process between the AHIF and the IHO program for all rental developments. Under the transition program, rental projects that submit an eligible planning application (Conditional Use, Planned Development, Site Development, or Special Use Permit), pay all planning fees, submit an Affordable Housing Compliance Plan, and pay the application fee before June 30, 2018 are eligible to remain under the AHIF program instead of being treated under the IHO. Therefore, a majority of the rental projects that are in the pipeline are under the AHIF (as described below). The IHO in-lieu fee for FY18-19 are $125,000 per rental affordable unit and $167,207 for for-sale affordable unit (which is applied to 20% of the total unit count). The fee is collected at the time the final certificates of occupancy are issued. An increase in the collection of IHO in-lieu fees is expected to be generated after the two-years after the IHO is imposed on rental developments and the completion of the four grace period projects (for-sale).

- **Affordable Housing Impact Fee (AHIF) –** Adopted in 2014, the AHIF requires rental developments with three (3) or more units to pay an impact fee based on a $17 per square foot fee. The AHIF includes a 2.4% escalator increasing the fee at the start of each fiscal year. The current AHIF is $17.83; the fee is due prior to building permit issuance and at the rate at that time. If a rental development is under the AHIF, the only compliance option is paying the impact fee. Currently there are 25 rental developments that are expecting to pay the impact fee. So far two projects have paid their AHIF in FY17-18 and FY18-19, totaling approximately $1.6 million.

  In addition, upon adoption of the AHIF program, the City Council included a Downtown High-Rise Exemption intended to encourage high-rise residential developments in the City's downtown core. To date, no projects have completed the required units to fully qualify for the exemption under the AHIF. However, two projects have pulled building permits and will likely obtain their final Certificates of Occupancy by June 30, 2021. Thus Housing staff are in the process of preparing a memorandum that will provide the City Council with the required information and analysis for the projects that qualified for all the exemptions and the impact fees/in-lieu fees foregone, as of December 31, 2018. The Housing Department plans to bring this Exempted Projects Report to City Council at the end of April 2019.

It should be noted that in the previous AHIP report $3.4 million in AHIF revenues was anticipated to be set aside for moderate-income for-sale housing. These funds are not included in the revenue chart and the Housing Department is in the process of reassessing if these funds should be used for multifamily housing or moderate-income for-sale housing. There are other funds the Housing Department may have from Inclusionary Policy loan repayments that could be set aside for moderate-income for-sale housing. Thus these funds have been readjusted to include all total revenue projections for all sources.

- **Housing Authority Litigation Award** – The one-time funds from the Housing Authority Litigation Award are being utilized to fund interim housing solutions including the construction and services for Bridge Housing Communities (approximately $7 million). These funds are also being considered for acquiring additional interim housing solutions such as a motel (projected $6 million). These priorities have reduced the amount of funding available for new construction from $19 million in the 2018 plan to $8.9 million in the AHIP update.

- **HOME –** The majority of the annual HOME allocation is currently used to fund rapid rehousing subsidies for homeless residents. The TCAM model estimates that there will be future repayments of HOME funds that have been included in the revenue projections. These HOME repayments can be reinvested into the development of new affordable housing.

- **SB2 State Housing Trust Fund** - SB2 establishes a State Housing Trust Fund. The legislation requires that 70% of funds collected after January 1, 2019, be provided to local governments. The funds will be distributed to jurisdictions using the federal Community Development Block Grant (CDBG) formula. It is estimated that SB2 will generate approximately $250 million a year of which 83% will be allocated to cities that already receive a direct allocation of CDBG funds. Based on this formula, staff is estimating that by the second year, the City will receive an allocation of approximately $2 million in the first year and $3 million annually.